# Michigan Department of Treasury 496 (02/06) Auditing Procedures Report

			-		nd P.A. 71 of 1919,	as amended.				
Local Unit of Government Type Local Unit Name County						County				
	Count	ty	□City	□Twp	□Village	Other				
Fisc	al Yea	r End			Opinion Date			Date Audit Report Subr	mitted to State	
We a	ffirm	that:						<b>-</b>		
We a	re ce	ertifie	d public ac	countants	s licensed to pra	actice in M	lichigan.			
We f	urthe	r affi	rm the follo	wing mate	erial, "no" respo	onses have	e been disclo	sed in the financial sta	tements, incl	uding the notes, or in the
Mana	agem	nent L	_etter (repo	ort of comi	ments and reco	mmendati	ions).			
	YES	9	Check ea	ch applic	cable box belo	<b>w</b> . (See in	structions fo	further detail.)		
1.					nent units/funds es to the financ				financial stat	ements and/or disclosed in the
2.								unit's unreserved fund l budget for expenditure		estricted net assets
3.			The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.							
4.			The local unit has adopted a budget for all required funds.							
5.			A public hearing on the budget was held in accordance with State statute.							
6.										
7.		☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.								
8.			The local unit only holds deposits/investments that comply with statutory requirements.							
9.								that came to our atten sed (see Appendix H of		ed in the <i>Bulletin for</i>
10.			that have	not been	previously com	municated	d to the Loca		ision (LAFD)	during the course of our audit . If there is such activity that has
11.			The local	unit is free	e of repeated c	omments t	from previous	s years.		
12.			The audit	opinion is	UNQUALIFIE	D.				
13.					complied with G		r GASB 34 a	s modified by MCGAA	Statement #7	and other generally
14.			The board	d or counc	cil approves all	invoices p	rior to payme	ent as required by chart	er or statute.	
15.			To our kn	owledge,	bank reconcilia	tions that	were reviewe	ed were performed time	ely.	
incl des	uded cripti	in th on(s)	nis or any of the autl	other aud hority and	dit report, nor of or commission	do they ol ı.	btain a stand	d-alone audit, please e		the audited entity and is not name(s), address(es), and a
					s statement is o	ı	_			
we	nave	e end	closed the	tollowing	g:	Enclosed	Not Require	ed (enter a brief justification	on)	
Fina	ancia	l Sta	tements							
The	lette	er of (	Comments	and Reco	ommendations					
Oth	er (D	escrib	e)							
Cert	fied P	ublic A	Accountant (Fi	rm Name)				Telephone Number		
Stre	et Add	ress						City	State	Zip
Auth	orizinç	g CPA	Signature	Da	ind W. Xenny	iton Pri	inted Name		License	I Number

Financial Report
with Supplemental Information
June 30, 2007

	Contents
Report Letter	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9-10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11-12
Reconciliation of the Balance Sheet of Governmental Funds to the	
Statement of Net Assets	13
Statement of Revenue, Expenditures, and Changes in Fund Balances	14-15
Reconciliation of the Statement of Revenue, Expenditures, and	
Changes in Fund Balances of Governmental Funds to the Statement	
of Activities	16
Proprietary Funds:	
Statement of Net Assets	17
	17
Statement of Revenue, Expenses, and Changes in Net Assets Statement of Cash Flows	19
Statement of Cash Flows	17
Fiduciary Funds - Statement of Assets and Liabilities	20
Notes to Financial Statements	21-38
Pagetined Standard Information	39
Required Supplemental Information	37
Budgetary Comparison Schedules - General Fund	40-43
Budgetary Comparison Schedules - Major Streets Fund	44
Other Supplemental Information	45
Nonmajor Governmental Funds:	
Combining Balance Sheet	46-49
Combining Statement of Revenue, Expenditures, and Changes in Fund	.5 17
Balances	50-53



Plante & Moran, PLLC

Suite 300 19176 Hall Road Clinton Township, MI 48038 Tel: 586.416.4900 Fax: 586.416.4901 plantemoran.com

#### Independent Auditor's Report

To the Honorable Mayor and Members of the City Council
City of Richmond, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Richmond, Michigan (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.



To the Honorable Mayor and Members of the City Council
City of Richmond, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

August 15, 2007

#### **Management's Discussion and Analysis**

Our discussion and analysis of the City of Richmond, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with City's financial statements which follow.

#### Financial Highlights

As discussed in further detail in the management's discussion and analysis, the following represent the most significant financial highlights for the year ended June 30, 2007:

- Tax revenues, the City of Richmond's largest single revenue source, totaled \$2.8 million in the General Fund this year, representing an increase of 6.5 percent from last fiscal year. This increase primarily reflects the growing tax base of the community as the City continues to realize considerable residential, industrial, and commercial development. The City's taxable value increased from \$183 million in 2005 to \$197 million in 2006. The taxable value of the City would have been greater if the Michigan constitutional amendment commonly known as "Proposal A" had not been enacted in 1994, resulting in a loss of potential revenue of more than \$660,000 in the 2006/2007 fiscal year, based upon the City tax levy of 16.6526 mills.
- State-shared revenue, a major source of revenue for the City's General Fund, continued its downward trend of the past several years. The City received \$476,125 in the 2006/2007 fiscal year, a reduction of \$5,486, or I percent, from last year and a reduction of \$208,582, or more than 30 percent, from 2001/2002 funding levels. This revenue reduction is masked by the increase in tax revenues resulting from a growing tax base. However, the serious impact of decreasing state-shared revenues will become more apparent as tax base growth slows. The City's proactive response to the decline in state-shared revenue is to closely monitor and continually evaluate General Fund revenue trends as well as expenditure trends, especially in the areas of personnel benefit costs and staffing levels and discretionary programming and capital projects, in order to achieve economies of scale, operational efficiencies, cost reductions, and justification for capital expenditures.
- Total long-term liabilities for governmental activities is \$1.3 million, a reduction of \$421,000, or 24.7 percent, from the previous year. This reduction reflects a continuing effort by the City Council and administration to maintain a "pay-as-you-go" basis for funding General Fund, Streets, and Enterprise Funds capital projects to minimize the need to incur additional debt. The City now sets aside an amount equal to 2 mills of the general operating tax levy for completion of its 20+ year street improvement program and reviews water and sewer rate structures annually to ensure an acceptable level of working capital is maintained, while providing the funding necessary to complete the utility capital improvement program.
- Total fund balance for the City's governmental funds increased by approximately \$502,000, primarily as a result of the development and growing tax base of the City.

#### **Management's Discussion and Analysis (Continued)**

#### **Using this Annual Report**

This annual report includes a series of financial statements. The statement of net assets and the statement of activities provide information about the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services. The activities are divided between governmental and business-type activities. Governmental activities include the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds. Business-type activities include the Water and Sewer Funds.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

#### The City of Richmond as a Whole

The following table shows a condensed format of the net assets (in thousands of dollars) as of June 30, 2007 and 2006:

	Gover	nmental				
	Acti	vities	Business-typ	oe Activities	To	otal
	2007	2006	2007	2006	2007	2006
Assets						
Current assets	\$ 4,049	\$ 3,848	\$ 4,182	\$ 3,427	\$ 8,231	\$ 7,275
Noncurrent assets - Capital assets	6,655	6,396	15,083	13,835	21,738	20,231
Total assets	10,704	10,244	19,265	17,262	29,969	27,506
Liabilities						
Current liabilities	149	467	564	120	713	587
Long-term liabilities	1,279	1,699	981	213	2,260	1,912
Total liabilities	1,428	2,166	1,545	333	2,973	2,499
Net Assets						
Invested in capital assets - Net						
of related debt	5,566	4,882	14,102	13,622	19,668	18,504
Restricted	1,249	618	417	397	1,666	1,015
Unrestricted	2,461	2,578	3,201	2,910	5,662	5,488
Total net assets	\$ 9,276	\$ 8,078	<u>\$ 17,720</u>	<u>\$ 16,929</u>	\$ 26,996	\$ 25,007

## **Management's Discussion and Analysis (Continued)**

The City's combined net assets for both governmental and business-type activities total \$27 million for fiscal year 2007. Net assets are further segregated between restricted and unrestricted net assets. The restricted net assets, assets that are restricted for a specific purpose/use and invested in capital assets, total approximately \$21 million. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, total approximately \$6 million.

The following table shows the change in net assets for the years ended June 30, 2007 and 2006 (in thousands of dollars):

	Govern	mental	Busines	ss-type		
	Activ	vities	Activ	/ities	To	tal
	2007	2006	2007	2006	2007	2006
Revenue						
Program revenue:						
Charges for services	\$ 644	\$ 680	\$ 1,787	\$ 1,824	\$ 2,431	\$ 2,504
Operating grants and contributions	645	431	-	-	645	431
Capital grants and contributions	-	-	487	413	487	413
General revenue:						
Property taxes	3,172	2,985	_	-	3,172	2,985
State-shared revenues	476	482	_	-	476	482
Interest	202	149	157	98	359	247
Franchise fees	61	59	-	-	61	59
Miscellaneous	339	360	_	_	339	360
Loss on disposal of capital assets	(5)	_	_	_	(5)	_
Transfers	20	20	(20)	(20)		
Total revenue	5,554	5,166	2,411	2,315	7,965	7,481
Program Expenses						
General government	756	829	-	=	756	829
Public safety	1,792	1,623	-	-	1,792	1,623
Public works	975	1,031	-	-	975	1,031
Recreation and culture	699	666	-	-	699	666
Community development	91	80	-	-	91	80
Interest on long-term debt	43	66	-	-	43	66
Water and sewer			1,620	1,709	1,620	1,709
Total program expenses	4,356	4,295	1,620	1,709	5,976	6,004
Change in Net Assets	\$ 1,198	<u>\$ 871</u>	<u>\$ 791</u>	<u>\$ 606</u>	<u>\$ 1,989</u>	<u>\$ 1,477</u>

#### **Governmental Activities**

Governmental activities are those activities (such as public safety or health and human services) provided to the constituents of the City and supported by financing from property taxes and state-shared revenues.

#### **Management's Discussion and Analysis (Continued)**

The cost of providing services for governmental activities was approximately \$4.4 million for fiscal year 2007. Additionally, revenues for governmental activities totaled approximately \$5.6 million, which netted to an increase in net assets for the year of approximately \$1.2 million. This indicates that the users of today's services paid more than the full costs of operations during the year ended June 30, 2007.

#### **Business-type Activities**

Business-type activities are those that are financed primarily by charges for services or user fees. The City's business-type activities consist of the Water and Sewer Funds; these types of operations are most similar to private businesses.

#### **The City's Funds**

Our analysis of the City's major funds begins on pages 11 and 12, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. This includes the General Fund, Major Streets Special Revenue Fund, Special Assessment Debt Service Fund, Water Fund, and Sewer Fund. The other nonmajor governmental funds are consolidated and reported under the column with that heading. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages and restricted revenues from grants or fees.

The General Fund pays for most of the City's governmental services. The most significant is the police department, which incurred expenses of approximately \$1,013,000 in 2007. The General Fund is supported primarily by property taxes and state-shared revenue.

#### **Budgetary Highlights**

Over the course of the year, the City administration and City Council monitor the budget, and if necessary, amend the budget to take into account unanticipated events that occur during the year. As previously stated, fund balances related to the City's governmental funds increased \$502,000. There were no significant budget amendments during the year ended June 30, 2007.

#### **Capital Asset and Debt Administration**

#### **Capital Assets**

At the end of fiscal year 2007, the City had \$21.7 million invested in capital assets (land, buildings, equipment, vehicles, and water and sewer lines). These assets are necessary to carry out the day-to-day operations of the City.

#### **Management's Discussion and Analysis (Continued)**

#### **Long-term Debt**

The City's total bonded indebtedness as of June 30, 2007 is approximately \$2.1 million. Of this amount, \$1.6 million represents a general obligation bond, \$391,000 represents capital lease obligations, and \$100,000 represents a special assessment bond.

#### **Economic Factors and Next Year's Budgets and Rates**

The national economy is demonstrating strong indications of recovery during 2006 and 2007. However, Michigan's fiscal crisis is entering its seventh year. State revenues are at their lowest since 1970. A majority of these reductions were self-inflicted. Enacted state tax cuts have eroded the State's ability to generate revenue; the State's fiscal reserves are depleted, and the state economic rebound is lagging behind the national recovery. During fiscal year 2006 and into 2007, the City anticipates level funding in state-shared revenues and grants. To date, these revenue reductions have been masked because of our growth and increased property tax revenues. To ensure sustainability of our operations, the City is closely monitoring reserve balances, revenues, and expenditures.

#### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the revenue it receives. If you have any questions about this report or need additional information, we invite you to contact the City of Richmond's finance department.

# Statement of Net Assets June 30, 2007

		Pr	rimary	Governmen	it			
								Component
								Unit - Tax
	6							ncrement
		overnmental		siness-type				Finance
		Activities		Activities		Total		Authority
Assets								
Cash and cash equivalents (Note 3)	\$	3,832,241	\$	2,947,969	\$	6,780,210	\$	2,378,597
Receivables:	*	0,002,2	*	_,,,,,	Ψ.	0,, 00,	Ψ.	_,_,_,
Special assessments		65,188		50,814		116,002		_
Customers		-		463,240		463,240		_
Other governmental units		151,589		297,084		448,673		390,790
Prepaid items		-		5,845		5,845		-
Restricted cash and cash equivalents (Notes 3 and 7)		_		417,279		417,279		_
Capital assets (Note 4):				,		,		
Assets not being depreciated		176,456		1,761,165		1,937,621		11,325
Assets being depreciated - Net		6,478,372		13,321,347		19,799,719	_	1,776,570
Total assets		10,703,846		19,264,743		29,968,589		4,557,282
Liabilities								
Accounts payable		74,090		527,583		601,673		47,121
Accrued and other liabilities		74,648		36,426		111,074		-
Noncurrent liabilities (Note 6):								
Due within one year		469,602		144,033		613,635		280,000
Due in more than one year		809,445		836,803		1,646,248	_	280,000
Total liabilities		1,427,785		1,544,845		2,972,630	_	607,121
Net Assets								
Invested in capital assets - Net of related debt		5,565,688		14,101,676		19,667,364		1,787,895
Restricted:		, ,		, ,		, ,		, ,
Library endowments		48,451		_		48,451		-
Streets and highways		1,056,865		_		1,056,865		-
Debt service		99,385		_		99,385		-
Capital improvements		44,254		417,279		461,533		-
Unrestricted		2,461,418		3,200,943	_	5,662,361	_	2,162,266
Total net assets	\$	9,276,061	<b>\$</b> I	7,719,898	\$	26,995,959	\$	3,950,161

			 l	Progr	am Revenue	s	
		Expenses	 Charges for Services	G	Operating Frants and Intributions	·	oital Grants and ntributions
Functions/Programs							
Governmental activities: General government Public safety Public works Recreation and culture Community development Interest on long-term debt Total governmental activities	\$	756,107 1,791,940 975,084 699,270 91,005 42,653 4,356,059	\$ 15,621 185,603 246,628 170,364 26,101 - 644,317	\$	- 603,616 3,938 37,592 - 645,146	\$	- - - - - - -
Business-type activities: Water Sewer		693,674 926,132	742,483 1,044,415		- -		11,700 475,256
Total business-type activities		1,619,806	 1,786,898				486,956
Total	\$	5,975,865	\$ 2,431,215	\$	645,146	\$	486,956
Component unit - Tax Increment Finance Authority	<u>\$</u>	549,775	\$ 	<u>\$</u>		<u>\$</u>	

General revenues:

Property taxes

State-shared revenues

Interest

Franchise fees

Miscellaneous

Loss on disposal of capital assets

Transfers

Total general revenues and transfers

**Change in Net Assets** 

Net Assets - Beginning of year

Net Assets - End of year

## Statement of Activities Year Ended June 30, 2007

Net (Ex	kpense) Revenue a	and Changes in Net	t Assets
			Component
			Unit - Tax
			Increment
Governmental	Business-type		Finance
Activities	Activities	Total	Authority
	-		
ф (740.40 <i>4</i> )	Φ.	ф (740.40¢)	<b>*</b>
\$ (740,486)		\$ (740,486)	\$ -
(1,606,337)		(1,606,337)	-
(124,840)		(124,840)	-
(524,968)		(524,968)	-
(27,312)	-	(27,312)	-
(42,653)		(42,653)	
(3,066,596)	-	(3,066,596)	-
	60,509	60,509	
_	593,539	593,539	-
	654,048	654,048	
(3,066,596)	654,048	(2,412,548)	-
-	-	-	(549,775)
3,171,899	-	3,171,899	1,146,997
476,125	-	476,125	-
201,762	157,240	359,002	129,248
60,836	-	60,836	-
338,766	-	338,766	-
(5,160)	-	(5,160)	=
20,300	(20,300)		
4,264,528	136,940	4,401,468	1,276,245
1,197,932	790,988	1,988,920	726,470
8,078,129	16,928,910	25,007,039	3,223,691
\$ 9,276,061	\$ 17,719,898	\$ 26,995,959	\$ 3,950,161

			٢	1ajor Funds		
		Special  General Revenue Fund - Fund Major Streets			Debt Service Fund - Special Assessment	
Assets				,		
Cash and cash equivalents (Note 3) Accounts receivable - Special assessments Due from other funds (Note 5)	\$	1,586,791 - -	\$	906,721	\$	29,007 62,805
Due from other governmental units		129,231		16,148		
Total assets	<u>\$</u>	1,716,022	\$	922,869	\$	91,812
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$	45,925	\$	3,435	\$	-
Accrued and other liabilities		68,448		-		-
Due to other funds (Note 5)		2,270		-		-
Deferred revenue (Note 8)		34,517	_	-		62,805
Total liabilities		151,160		3,435		62,805
Fund Balances						
Reserved - Library endowments		-		-		-
Unreserved, reported in:						
General Fund		1,564,862		=		-
Special Revenue Funds		-		919,434		=
Debt Service Funds		-		-		29,007
Capital Projects Funds	_			=		
Total fund balances	_	1,564,862		919,434		29,007
Total liabilities and fund balances	\$	1,716,022	\$	922,869	\$	91,812

## Governmental Funds Balance Sheet June 30, 2007

	Other Nonmajor overnmental Funds	Go	Total overnmental Funds
\$	1,309,722 2,383 2,270 6,210	\$	3,832,241 65,188 2,270 151,589
\$	1,320,585	\$	4,051,288
\$	24,730 -	\$	74,090 68,448
	- 1 202		2,270
-	2,383		99,705
	27,113		244,513
	48,451		48,451
	-		1,564,862
	417,240		1,336,674
	7,573		36,580
	820,208		820,208
	1,293,472		3,806,775
\$	1,320,585	\$	4,051,288

### Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets Year Ended June 30, 2007

Total Fund Balances of Governmental Funds	\$ 3,806,775
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	6,654,828
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(1,089,140)
Accrued interest payable	(6,200)
Compensated absences	(189,907)
Receivables due from certain other governmental units are not available to pay for current year expenditures and have been reported as deferred revenue in the funds	34,517
Special assessment receivables are expected to be collected over several years and are not available to pay for	<b>/</b> E 100
current year expenditures	 65,188
Net Assets of Governmental Activities	\$ 9,276,061

			Major Funds	
			Special Revenue Fund	Debt Service Fund
		General Fund	Major Streets	Special Assessment
Revenue				
Property taxes	\$	2,776,281	\$ -	\$ -
Special assessments	*		-	17,856
Federal sources		_	-	-
State sources		492,981	228,679	_
Charges for services		534,432	, <u>-</u>	_
Interest and rent		107,052	26,984	5,270
Fines and forfeitures		78,384	,	-,
Donations		5,723	_	_
Licenses and permits		101,675	_	_
Other		285,620	546	-
Total revenue		4,382,148	256,209	23,126
Expenditures				
Current:				
General government		942,035	-	-
Highways and streets		, -	214,962	_
Public service		_		_
Public safety		1,498,448	_	_
Public works		625,890	_	_
Recreation and culture		318,846	_	_
Health and welfare		456	_	_
Capital outlay		-	_	_
Debt service:				
Principal retirement		134,063	_	25,000
Interest and fiscal charges		-	-	5,888
Total expenditures		3,519,738	214,962	30,888
Excess of Revenue Over (Under) Expenditures		862,410	41,247	(7,762)
Other Financing Sources (Uses)				( , ,
Transfers in (Note 5)		25,083	520,000	_
Transfers out (Note 5)		(838,142)	(40,000)	
Total other financing sources (uses)		(813,059)	480,000	
Net Change in Fund Balances		49,351	521,247	(7,762)
Fund Balances - Beginning of year		1,515,511	398,187	36,769
Fund Balances - End of year	\$	1,564,862	\$ 919,434	\$ 29,007

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

	Total
Governmental	Governmental
Funds	Funds
\$ 395,618	\$ 3,171,899
6,728	24,584
28,100	28,100
85,400	807,060
238,071	772,503
66,911	206,217
-	78,384
5,351	11,074
5,551	101,675
40,453	326,619
	320,017
866,632	5,528,115
-	942,035
90,773	305,735
90,166	90,166
204,209	1,702,657
_	625,890
389,237	708,083
-	456
63,662	63,662
399,747	558,810
42,565	48,453
	5,045,947
1,280,359	
(413,727)	482,168
(413,727)	482,168
(413,727) 898,442	482,168 1,443,525
(413,727)	482,168
(413,727) 898,442	482,168 1,443,525
(413,727) 898,442 (545,083)	482,168 1,443,525 (1,423,225)
(413,727) 898,442 (545,083) 353,359	482,168 1,443,525 (1,423,225) 20,300

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year Ended June 30, 2007

Net Change in Fund Balances of Governmental Funds	\$	502,468
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:  Capital outlay expenditures  Depreciation expense		589,931 (326,394)
In the statement of activities, only the gain/loss on the sale of an asset is reported, whereas in the governmental funds, the proceeds from the sale are reported. Therefore, the change in net assets differs from the change in fund balance by the proceeds from the assets sold		(5,160)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities		424,747
Interest expense is recorded when incurred in the statement of activities		5,800
Compensated absence liabilities are recorded when earned in the statement of activities		(4,196)
Rental revenue is not recorded in the funds until available; this revenue is recorded as revenue when earned in the government-wide statements		34,517
Special assessment revenue is not recorded in the funds until received; these revenues are recorded as revenue when the project is substantially completed in the		(22.701)
government-wide statements  Change in Net Assets of Governmental Activities	<b>\$</b>	(23,781) 1,197,932
enange in 1400 Assets of Governmental Activities		, ,

## Proprietary Funds Statement of Net Assets June 30, 2007

	M	ajor Enter					
	V	/ater	S	Sewer	Total		
Assets							
Current assets:							
Cash and cash equivalents (Note 3)	\$	829,500	\$ :	2,118,469	\$	2,947,969	
Receivables:	4	02.,000	Ψ .	_,,	*	_,,,	
Special assessments		_		12,703		12,703	
Customers		204,806		258,434		463,240	
Due from State		-		297,084		297,084	
Prepaid items		5,845				5,845	
Total current assets	I	,040,151	,	2,686,690		3,726,841	
Noncurrent assets:							
Special assessments - Long-term portion		-		38,111		38,111	
Restricted cash and cash equivalents (Note 7)		-		417,279		417,279	
Capital assets (Note 4):							
Capital assets not being depreciated		156,726		1,604,439		1,761,165	
Capital assets being depreciated - Net	4	,960,987	8	8,360,360		13,321,347	
Total noncurrent assets	5	,117,713	10	0,420,189		15,537,902	
Total assets	6	,157,864	13	3,106,879		19,264,743	
Liabilities							
Current liabilities:							
Accounts payable		6,386		521,197		527,583	
Accrued and other liabilities		22,704		13,722		36,426	
Current portion of long-term debt (Note 6)		106,650		37,383		144,033	
Total current liabilities		135,740		572,302		708,042	
Long-term debt (Note 6)				836,803		836,803	
Total liabilities		135,740		1,409,105		1,544,845	
Net Assets							
Invested in capital assets	5	,011,063	•	9,090,613		14,101,676	
Restricted (Note 7)		-		417,279		417,279	
Unrestricted	1	,011,061		2,189,882		3,200,943	
Total net assets	\$ 6,	022,124	<u>\$ 11</u>	<u>,697,774</u>	<u>\$ 1</u>	7,719,898	

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2007

	Major					
	Water		Sewer	Total		
Operating Revenue	¢ 722	207	¢ 1.012.500	ф	1 724 005	
Usage fees	\$ 722,		\$ 1,012,599	\$	1,734,985	
Tap-in fees		175	210		385	
Penalties Charges for our income		228	15,585		26,813	
Charges for services		280	-		4,280	
Miscellaneous	4,	<u>414</u>	16,021		20,435	
Total operating revenue	742,	483	1,044,415		1,786,898	
Operating Expenses						
Administration	92,	171	101,361		193,532	
Infrastructure maintenance		903	_		903	
Water production	173,	641	_		173,641	
Water system	279,	454	-		279,454	
Depreciation	141,	106	235,119		376,225	
Sewer treatment plant		-	395,829		395,829	
Sewer system			193,823		193,823	
Total operating expenses	687,	275	926,132		1,613,407	
Operating Income	55,	208	118,283		173,491	
Nonoperating Revenue (Expense)						
Interest income	41,	019	116,221		157,240	
Connection fees	11,	700	12,113		23,813	
State grants		-	463,143		463,143	
Interest expense	(6,	<u>399</u> )		_	(6,399)	
Total nonoperating revenue	46,	320	591,477		637,797	
Income - Before operating transfers	101,	528	709,760		811,288	
Other Financing Sources (Uses)						
Transfers in (Note 5)	19,	740	-		19,740	
Transfers out (Note 5)			(40,040)		(40,040)	
Total other financing sources (uses)	19,	740	(40,040)		(20,300)	
Net Change in Net Assets	121,	268	669,720		790,988	
Net Assets - Beginning of year	5,900,	856	11,028,054		16,928,910	
Net Assets - End of year	\$ 6,022,	124	\$ 11,697,774	\$	17,719,898	

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2007

	Major Enterprise Funds					
		Water		Sewer		Total
Cash Flows from Operating Activities						
Receipts from customers and other funds	\$	732,868	\$	729,557	\$	1,462,425
Payments to suppliers, employees, and other funds		(551,940)	_	(241,497)		(793,437)
Net cash provided by operating activities		180,928		488,060		668,988
Cash Flows from Noncapital Financing Activities						
Operating transfers in		19,740		-		19,740
Operating transfers out				(40,040)		(40,040)
Net cash provided by (used in) noncapital						
financing activities		19,740		(40,040)		(20,300)
Cash Flows from Capital and Related Financing Activities						
Proceeds from the issuance of long-term debt		_		874,186		874,186
Principal and interest paid on capital debt		(113,049)		-		(113,049)
Collection of customer assessments (principal and interest)		-		14,066		14,066
Proceeds from state grants		-		463,143		463,143
Purchase of capital assets		(37,569)		(1,586,206)		(1,623,775)
Contributed capital from tap-in fees		11,700		12,113		23,813
Net cash used in capital and related						
financing activities		(138,918)		(222,698)		(361,616)
Cash Flows from Investing Activities - Interest received						
on investments		41,019		116,221		157,240
Net Increase in Cash and Cash Equivalents		102,769		341,543		444,312
Cash and Cash Equivalents - Beginning of year		726,731		2,194,205		2,920,936
Cash and Cash Equivalents - End of year	\$	829,500	\$	2,535,748	\$	3,365,248
Statement of Net Assets Classification of Cash and Cash Equivalents						
Cash and cash equivalents	\$	829,500	\$	2,118,469	\$	2,947,969
Restricted assets		-	_	417,279		417,279
Total	\$	829,500	\$	2,535,748	\$	3,365,248
Reconciliation of Operating Income to Net Cash from						
Operating Activities						
Operating income	\$	55,208	\$	118,283	\$	173,491
Adjustments to reconcile operating income to net						
cash from operating activities:						
Depreciation		141,106		235,119		376,225
Changes in assets and liabilities:		<i>(</i> <b>- -</b> .				()
Customer receivables		(9,615)		(17,774)		(27,389)
Due from state		(0.000)		(297,084)		(297,084)
Accounts payable		(2,303)		452,073		449,770
Accrued liabilities		(3,468)	_	(2,557)		(6,025)
Net cash provided by operating activities	\$	180,928	<u>\$</u>	488,060	<u>\$</u>	668,988

## Fiduciary Funds Statement of Assets and Liabilities June 30, 2007

	Trust and Agency Fund
Assets Cash (Note 3) Taxes receivable	\$ 4,745 482
Total assets	\$ 5,227
Liabilities - Accrued and other liabilities	<u>\$ 5,227</u>

# Notes to Financial Statements June 30, 2007

#### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Richmond, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

#### **Reporting Entity**

The City is governed by an elected seven-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

**Discretely Presented Component Units** - The following component units are reported within the component units column to emphasize that they are legally separate from the City.

- a. The Tax Increment Finance Authority was created to promote capital expansion within the City. The Authority's governing body is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council. There are no separately issued financial statements for the Tax Increment Finance Authority.
- b. The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Economic Development Corporation was inactive during 2007 and has no assets or liabilities.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

# Notes to Financial Statements June 30, 2007

#### Note I - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (I) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental sources, and interest. All other revenue items are considered available only when the cash is received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

# Notes to Financial Statements June 30, 2007

#### Note I - Summary of Significant Accounting Policies (Continued)

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major funds:

#### **Governmental Funds**

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.
- The Major Streets Special Revenue Fund accounts for the activities related to major street construction.
- The Special Assessment Debt Service Fund accounts for the annual payment of principal, interest, and expenses in connection with special assessment debt.

#### **Business-type Funds**

- The Water Fund accounts for the results of operations that provide water services to citizens and is financed by a user charge for the provision of those services.
- The Sewer Fund accounts for the results of operations that provide sewer services to citizens and is financed by a user charge for the provision of those services.

Additionally, the City reports the following funds:

**Special Revenue Funds** - Special Revenue Funds account for the revenues and expenditures related to major streets, local streets, fire department, housing and urban development, mausoleum, cemetery, parks and recreation, and parking.

### Notes to Financial Statements June 30, 2007

#### Note I - Summary of Significant Accounting Policies (Continued)

**Debt Service Funds** - Debt Service Funds account for the debt retirement activity of the governmental activities of the City for the general obligations and street improvements projects of the City.

**Capital Projects Funds** - Capital Projects Funds account for the development of capital facilities and equipment other than those financed by the operation of a proprietary fund. These projects include vehicle and repairs, equipment replacement, special assessments, and street improvements.

**Agency Funds** - Agency Funds are used to account for assets held by the City as an agent for individuals, organizations, other governments, or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When an expense has been incurred for purposes for which both restricted and unrestricted assets are available, the City's policy is to first apply restricted resources.

# Notes to Financial Statements June 30, 2007

#### Note I - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of the City's proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating revenue and expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### Assets, Liabilities, and Net Assets or Equity

**Cash and Cash Equivalents** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value, based on quoted market prices, or estimated fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

**Property Taxes** - Properties are assessed as of December 31. The related property taxes are billed on July I and become a lien on December I of the following year. These taxes are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls.

The 2006 taxable valuation of the City totaled \$197.1 million (a portion of which is captured by the TIFA). Taxes were levied as follows:

Purpose	Mi	llage Rate	Revenue			
General operating Debt	\$	16.6526	\$	2,665,689 393,739		
Total	\$	18.6526	\$	3,059,428		

These amounts are recognized in the respective General and Debt Service Funds financial statements as tax revenue.

### Notes to Financial Statements June 30, 2007

#### Note I - Summary of Significant Accounting Policies (Continued)

**Noncurrent Receivables** - Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end.

**Inventories and Prepaid Items** - Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase. Normally, expenditures are not divided between years by the recording of prepaid expenses.

**Capital Assets** - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and storm drains), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	30-50 years
Vehicles and equipment	5-40 years
Utility systems	50 years
Infrastructure - Roads	25 years

**Compensated Absences** - The City allows employees to accumulate earned but unused sick and vacation pay benefits. Under the City's policies, employees earn benefits based on time of service with the City. The government-wide and proprietary statements accrue all vacation and sick pay as it is earned. A liability for these amounts is reported in governmental funds as it comes due for payment, generally when time is taken off or employees terminate.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

### Notes to Financial Statements June 30, 2007

#### Note I - Summary of Significant Accounting Policies (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Other accounting policies are disclosed in other notes to the financial statements.

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds.

The City adopts its budget on a departmental basis, which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to the first regular board meeting in April, the City manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- A public hearing is conducted to obtain taxpayer comments.
- Prior to the second Monday in June, the budget is legally adopted by the City Council through adoption of the appropriation ordinance.

### Notes to Financial Statements June 30, 2007

#### Note 2 - Stewardship, Compliance, and Accountability (Continued)

 The City manager is authorized to transfer budgeted amounts within the budgetary centers (activity); however, any revisions that alter the total expenditure of any budgetary center (activity) must be approved by the City Council.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The City did not have significant expenditure budget variances.

#### **Note 3 - Deposits and Investments**

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is also allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the three highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City has adopted an investment policy in accordance with state law.

The City has designated seven banks for the deposit of local unit funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all of the investment options as allowed under the state statutory authority as listed above.

The City's deposits and investment policies are in accordance with statutory authority.

# Notes to Financial Statements June 30, 2007

#### **Note 3 - Deposits and Investments (Continued)**

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

#### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At June 30, 2007, the City had \$753,670 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City also holds bank deposits on behalf of its component unit. At June 30, 2007, the City had \$1,283,485 of component unit bank deposits that were uninsured and uncollateralized. The City and its component unit believe that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City and its component unit evaluate each financial institution with which they deposit funds and assess the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### **Credit Risk**

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City and its component unit have no investment policy that would further limit their investment choices. As of June 30, 2007, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

				Rating
Investment		Rating	Organization	
Primary Government				
Bank investment pool	\$	6,883,000	Not rated	Not rated
Bank investment pool		142,962	AAA	Moody's
Component Unit				
Bank investment pool		375,212	Not rated	Not rated

# Notes to Financial Statements June 30, 2007

### Note 3 - Deposits and Investments (Continued)

#### **Interest Rate Risk**

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

		Weighted-
		average
Investment	Fair Value	<u>Maturity</u>
Bank investment pool	\$ 142,962	34 days

#### **Note 4 - Capital Assets**

Capital asset activity of the City's governmental and business-type activities was as follows:

		Balance						Balance
Governmental Activities	Jι	ıly I, 2006		Additions		Disposals	Jui	ne 30, 2007
Capital assets not being depreciated:								
Land	\$	120,000	\$	-	\$	-	\$	120,000
CIP				56,456				56,456
Subtotal		120,000		56,456		-		176,456
Capital assets being depreciated:								
Buildings		4,029,730		404,198		-		4,433,928
Infrastructure		1,487,725		31,604		-		1,519,329
Vehicles and equipment		3,370,082		97,673		(43,000)		3,424,755
Subtotal		8,887,537		533,475		(43,000)		9,378,012
Accumulated depreciation:								
Buildings		972,032		24,166		-		996,198
Infrastructure		117,116		58,426		-		175,542
Vehicles and equipment		1,521,938	_	243,802		(37,840)		1,727,900
Subtotal		2,611,086	_	326,394		(37,840)	_	2,899,640
Net capital assets being depreciated		6,276,451		207,081	_	(5,160)		6,478,372
Net capital assets	\$	6,396,451	\$	263,537	\$	(5,160)	\$	6,654,828

# Notes to Financial Statements June 30, 2007

## **Note 4 - Capital Assets (Continued)**

		Balance						Balance
Business-type Activities	July 1, 2006		Additions		Disposals		June 30, 2007	
Capital assets not being depreciated:								
Land	\$	157,042	\$	-	\$	-	\$	157,042
CIP				1,604,123		-		1,604,123
Subtotal		157,042		1,604,123		-		1,761,165
Capital assets being depreciated:								
Buildings		9,441,824		19,652		-		9,461,476
Utility systems	9,982,908			-	-		9,982,90	
Vehicles and equipment	668,456						_	668,456
Subtotal	:	20,093,188		19,652		-		20,112,840
Accumulated depreciation:								
Buildings		2,982,803		157,517		-		3,140,320
Utility systems		3,213,643		180,435		-		3,394,078
Vehicles and equipment		218,822		38,273				257,095
Subtotal		6,415,268		376,225		-		6,791,493
Net capital assets being depreciated		13,677,920		(356,573)				13,321,347
Net capital assets	\$	13,834,962	\$	1,247,550	\$	_	\$	15,082,512

## Capital asset activity of the City's component unit was as follows:

	Balance						Balance			
Component Unit Activities	Ju	ıly I, 2006	Additions		Disposals		Jur	ne 30, 2007		
Capital assets not being depreciated - Construction in progress	\$	1,049,366	\$	11,325	\$	(1,049,366)	\$	11,325		
Capital assets being depreciated: Buildings Infrastructure Furniture and fixtures		- - 11,865	_	40,888 730,647 -		- 1,049,366 -		40,888 1,780,013 11,865		
Subtotal		11,865		771,535		1,049,366		1,832,766		
Accumulated depreciation:										
Buildings		-		14,711		-		14,711		
Infrastructure		-		36,678		-		36,678		
Furniture and fixtures		2,373	_	2,434				4,807		
Subtotal		2,373	_	53,823	_			56,196		
Net capital assets being depreciated		9,492	_	717,712		1,049,366		1,776,570		
Net capital assets	\$	1,058,858	\$	729,037	\$		\$	1,787,895		

# Notes to Financial Statements June 30, 2007

### **Note 4 - Capital Assets (Continued)**

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:		
General government	\$	80,398
Public safety		167,560
Public works		41,932
Recreation and culture		36,504
Total governmental activities	<u>\$</u>	326,394
Business-type activities:		
Water lines	\$	141,106
Sewer lines		235,119
Total business-type activities	\$	376,225

## Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amoun	Amount	
Due to/from other funds -				
Other governmental funds	General Fund	\$ 2,	270	

### Notes to Financial Statements June 30, 2007

#### Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund balances represent routine and temporary cash flow assistance.

Fund Transferred From	Fund Transferred To		Amount	
Interfund Transfers				
Governmental funds:			000 1 40	
General Fund	Nonmajor governmental funds	\$	838,142	
Major Streets Fund	Nonmajor governmental funds		40,000	
Nonmajor governmental funds	General Fund		25,083	
	Major Streets Fund		520,000	
	Total nonmajor governmental funds		545,083	
	Total operating transfers out			
	from governmental funds		1,423,225	
Business-type fund -				
Sewer Fund	Water Fund		19,740	
	Nonmajor governmental funds		20,300	
	Total operating transfers out			
	from business-type funds		40,040	
	Total operating transfers out	\$	1,463,265	

Transfers provided funding for capital projects, capital acquisitions, and program services in accordance with budgetary authorizations.

#### Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. City contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received.

### Notes to Financial Statements June 30, 2007

### Note 6 - Long-term Debt (Continued)

The special assessment bonds represent the financing of public improvements that benefit specific districts; these districts are specially assessed, at least in part, for the cost of the improvements. There is approximately \$63,000 of special assessments receivable in the future reported in the Special Assessment District Fund; the amount of receivables delinquent at June 30, 2007 is not significant. In addition, there is approximately \$29,000 set aside in the Special Assessment District Fund for repayment of these bonds. Under Michigan law, the City is secondarily liable for payment of these bonds.

Long-term obligation activity is summarized as follows:

	Interest		Beginning								Due Within
	Rate		Balance		Additions	_F	Reductions	En	ding Balance		One Year
Governmental Activities											
General obligation bond -											
1995 Road Bond:											
Amount of issue - \$3,065,000											
Maturing through 2009	4.75%	\$	1,055,000	\$	-	\$	(350,000)	\$	705,000	\$	350,000
Special Assessment Bonds -											
2001 Special Assessments Bonds -											
33 Mile Road:											
Amount of issue - \$228,000	4.525%-										
Maturing through 2011	4.70%		125,000		-		(25,000)		100,000		25,000
Installment purchase obligations - Fire truck											
purchase:											
Amount of issue - \$100,000											
Maturing through 2007	5.24%		21,647		-		(21,647)		-		-
Capital lease obligation - Community Center:											
Amount of issue - \$365,405											
Maturing through 2018	0%	_	312,240	_		_	(28,100)	_	284,140		26,020
Subtotal			1,513,887				(424,747)		1,089,140		401,020
Other long-term obligations - Compensated											
absences			185,711		4,196	_			189,907	_	68,582
Total governmental activities		\$	1,699,598	\$	4,196	\$	(424,747)	\$	1,279,047	\$	469,602

## Notes to Financial Statements June 30, 2007

## **Note 6 - Long-term Debt (Continued)**

	Interest	ı	Beginning								Due Within	
	Rate		Balance		Additions		Reductions		Ending Balance		One Year	
Business-type Activities												
General obligation bonds - 2007 Sewage												
Disposal System Revolving Loan:												
Amount of issue - \$3,040,000 - Net of												
\$2,165,811 not drawn down as of												
June 30, 2007												
Maturing through 2027	1.625 %	\$	-	\$	874,186	\$	-	\$	874,186	\$	37,383	
Capital lease obligation - Arsenic												
Removal Plant:												
Amount of issue - \$328,162												
Maturing through 2008	3%		213,300	_		_	(106,650)	_	106,650	_	106,650	
Total business-type activities		\$	213,300	\$	874,186	\$	(106,650)	\$	980,836	\$	144,033	

## Long-term obligation activity for the component unit is summarized as follows:

	Interest Rate	Beginning Balance		Additions		Reductions		Ending Balance		Due Within One Year	
Component Unit Debt											
1995 Development Bond Series A:											
Amount of issue - \$1,200,000	6.20%-										
Maturing through 2009	6.30%	\$	390,000	\$	_	\$	(125,000)	\$	265,000	\$	135,000
1995 Development Bond Series B:							,				
Amount of issue - \$1,275,000	6.20%-										
Maturing through 2009	6.30%	_	425,000			_	(130,000)	_	295,000		145,000
Total component unit debt		\$	815,000	\$		\$	(255,000)	\$	560,000	\$	280,000

## Annual debt service requirements to maturity are as follows:

		Gove	nental Act	es	Component Units							
	I	Principal	I	nterest	Total		Principal			nterest		Total
2008	\$	401,020	\$	29,700	\$	430,720	\$	280,000	\$	26,320	\$	306,320
2009		406,020		11,869		417,889		280,000		8,820		288,820
2010		51,020		2,325		53,345		-		-		-
2011		51,020		1,175		52,195		-		-		-
2012		26,020		-		26,020		-		-		-
2013-2017		130,100		-		130,100		-		-		-
2018		23,940				23,940						-
Total	\$	1,089,140	\$	45,069	\$	1,134,209	\$	560,000	\$	35,140	\$	595,140

### Notes to Financial Statements June 30, 2007

**Note 6 - Long-term Debt (Continued)** 

	 Business Activities									
	Principal		Interest		Total					
2008	\$ 144,033	\$	17, <del>4</del> 05	\$	161, <del>4</del> 38					
2009	37,383		13,598		50,981					
2010	38,821		12,990		51,811					
2011	38,821		12,360		51,181					
2012	40,259		11,730		51,989					
2013-2017	209,919		48,668		258,587					
2018-2022	225,736		31,144		256,880					
2023-2027	245,864		12,104		257,968					
Total	\$ 980,836	\$	159,999	\$	1,140,835					

**Interest** - The City incurred approximately \$93,000 of interest for the year ended June 30, 2007.

**Capital Lease** - The City has entered into lease agreements as lessee for financing the purchase of a community center and an arsenic removal facility from the Tax Increment Financing Authority. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

Years Ending June 30	_	ommunity Center	Arsenic Removal Facility
2008		\$ 26,020	\$ 106,650
2009		26,020	-
2010		26,020	-
2011		26,020	-
2012		26,020	-
2013-2017		130,100	-
2018		 23,940	 
	Total minimum lease payments	284,140	106,650
	Less amount representing interest	 	 
	Present value	\$ 284,140	\$ 106,650

### Notes to Financial Statements June 30, 2007

#### **Note 7 - Restricted Assets**

Restricted assets at June 30, 2007 consist of cash and cash equivalents that are restricted for future capital needs for the sewer treatment plant as required by the Environmental Protection Agency regulations. Net assets have been restricted for capital improvement related to this requirement.

#### **Note 8 - Deferred Revenue**

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the deferred revenue relates to special assessments and rental income that are unavailable to liquidate liabilities of the current period.

#### **Note 9 - Commitments**

The City entered into an agreement with Lenox Township for the purchase of land to be paid for by property taxes levied on the assessed value of the land. This agreement was modified during the year ended June 30, 1999. The modified agreement requires annual payments through September 1, 2018 totaling 3.6 mills of the total assessed value of the area purchased. The City paid \$134,063 during the year ended June 30, 2007, when the assessed value of the area was approximately \$37,240,000.

During the year ending June 30, 2008, the City will pay approximately \$145,000, based on an estimated assessed value of \$40,198,000. Future installment payments have been estimated assuming inflationary increases of 3 percent.

The annual payment requirements to service the agreement as of June 30, 2007 are as follows:

2008	\$ 144,71	2
2009	149,05	4
2010	153,52	25
2011	158,13	3
2012	162,78	35
2013-2017	890,66	7
2018-2019	394,79	7
Total	\$ 2,053,67	7

### Notes to Financial Statements June 30, 2007

#### **Note 10 - Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for property loss, torts, errors and omissions, and medical benefit claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past four fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

#### **Note II - Defined Contribution Pension Plan**

The City provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by council resolution, the City contributes 10 percent of employees' gross earnings and employees have to contribute at least 5 percent. In accordance with these requirements, the City contributed \$170,093 during the current year, and employees contributed \$86,856.

#### **Note 12 - State Construction Code Act**

The City tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999, the City is required to maintain an accounting system that separately accumulates revenue and expenditures related to the building department function. As required under provision of the Act, the City adopted this accounting treatment effective January I, 2000. Activity for the year ended June 30, 2007 was as follows:

Accumulated Expenditures Over Revenue - July 1, 2006	\$ (41,034)
2006-2007 building department activity:	
Current year revenue	38,931
Current year expenditures	 82,625
Excess of expenditures over revenues	 (43,694)
Accumulated Expenditures Over Revenue - June 30, 2007	\$ (84,728)

Rea	uired	Supp	lemental	Inform	ation
			10111011001		

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original	Amended		Variance with
	Budget	Budget	Actual	Budget
Revenue				
Property Taxes				
Real and personal property taxes	\$ 2,756,342	\$ 2,756,342	\$ 2,750,125	\$ (6,217)
Interest, penalties, and other	17,800	17,800	26,156	8,356
Total property taxes	2,774,142	2,774,142	2,776,281	2,139
Licenses and Permits				
Building permits	30,000	30,000	19,049	(10,951)
Electrical and plumbing permits	30,000	30,000	12,662	(17,338)
Cable television franchise fee	58,000	58,000	61,626	3,626
Other	19,102	19,102	8,338	(10,764)
Total licenses and permits	137,102	137,102	101,675	(35,427)
State Sources				
Revenue-sharing	484,232	484,232	476,125	(8,107)
Library	7,200	7,200	3,938	(3,262)
State grants	20,968	20,968	9,492	(11,476)
Liquor license fees	3,000	3,000	3,426	426
Total state sources	515,400	515,400	492,981	(22,419)
Charges for Services				
Trash collection	201,000	201,000	238,269	37,269
Fees	14,008	14,008	18,503	4,495
Rentals	304,501	304,501	277,660	(26,841)
Total charges for services	519,509	519,509	534,432	14,923

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Budget
Revenue (Continued)				
Fines and Forfeitures				
Traffic fines and penalties	\$ 32,000	\$ 32,000	\$ 41,350	\$ 9,350
Library fines	31,500	31,500	37,034	5,534
Total fines and forfeitures	63,500	63,500	78,384	14,884
Donations	3,000	3,000	5,723	2,723
Interest	40,000	40,000	107,052	67,052
Other Revenue				
Special assessment payments	9,078	-	-	-
Other	270,400	270,400	285,620	15,220
Total other revenue	279,478	270,400	285,620	15,220
Total revenue	4,332,131	4,323,053	4,382,148	59,095
Other Financing Sources - Operating				
transfers in	25,553	25,083	25,083	
Total revenue and other				
financing sources	4,357,684	4,348,136	4,407,231	59,095

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2007

	Original		A	Amended				iance with
		Budget		Budget		Actual		Budget
Expenditures								
General Government								
City Council	\$	35,790	\$	40,655	\$	32,009	\$	8,646
Cable television		56,000		56,000		29,253		26,747
City manager		122,804		117,939		63,102		54,837
Elections		22,467		22,467		12,209		10,258
Assessor		48,042		48,042		43,995		4,047
Attorney		37,300		37,300		23,947		13,353
Clerk		98,766		98,766		89,000		9,766
Board of Review		2,580		3,363		3,292		71
Zoning Board of Appeals		1,300		1,300		-		1,300
Treasurer		61,513		66,288		63,869		2,419
Building and grounds		74,671		79,974		73,254		6,720
Building and grounds - Police		572,934		531,026	_	508,105		22,921
Total general government		1,134,167		1,103,120		942,035		161,085
Public Safety								
Police		1,051,430		1,051,430		1,013,412		38,018
Civil defense/emergency preparedness		3,000		3,000		1,505		1,495
Traffic and safety		37,151		38,891		35,451		3,440
Communications		250,835		250,835		246,796		4,039
Building code enforcement		121,225		121,078		82,625		38,453
Planning		73,878		73,878		69,511		4,367
Public service director		49,818		49,818		49,148		670
Total public safety		1,587,337		1,588,930		1,498,448		90,482
Public Works								
Department of Public Works		699,413		699,706		311,081		388,625
Street lighting		85,080		85,080		90,504		(5,424)
Refuse collection and disposal		206,250	_	224,682	_	224,305		377
Total public works		990,743		1,009,468		625,890		383,578

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2007

	 Original Budget	Amended Budget		Actual		Vai	riance with Budget
Expenditures (Continued)							
Health and Welfare - Economic development	\$ 4,750	\$	4,750	\$	456	\$	4,294
Recreation and Cultural - Library	307,225		320,045		318,846		1,199
Debt Service - Principal	 134,437		134,437	_	134,063		374
Total expenditures	4,158,659		4,160,750		3,519,738		641,012
Other Uses - Operating transfers out	 829,398		861,068	_	838,142		22,926
Total expenditures and other uses	 4,988,057		5,021,818		4,357,880		663,938
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	(630,373)		(673,682)		49,351		723,033
Fund Balance - July 1, 2006	1,515,511		1,515,511		1,515,511		
Fund Balance - June 30, 2007	\$ 885,138	\$	841,829	\$	1,564,862	\$	723,033

## Required Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2007

	 Original Budget	Amended Budget	Actual	iance with Budget
Revenue				
State Sources - State grants	\$ 238,204	\$ 238,204	\$ 228,679	\$ (9,525)
Interest	7,000	19,500	26,984	7,484
Other Revenue	 	546	546	 
Total revenue	245,204	258,250	256,209	(2,041)
Other Financing Sources - Operating transfers in	 520,000	520,000	520,000	 
Total revenue and other financing sources	765,204	778,250	776,209	(2,041)
Expenditures				
Highways and Streets				
Capital improvements	778,837	809,938	84,207	725,731
Routine maintenance	63,165	67,879	52,517	15,362
Traffic services	29,354	39,184	32,790	6,394
Winter maintenance	53,301	43,422	37,353	6,069
Administration	 8,767	8,767	8,095	 672
Total highways and streets	933,424	969,190	214,962	754,228
Other Uses - Operating transfers out	 40,000	40,000	40,000	 
Total highways and streets				
and other uses	 973,424	1,009,190	254,962	 754,228
Excess of Revenue and Other Financing Sources Over (Under) Expenditures				
and Other Uses	(208,220)	(230,940)	521,247	752,187
Fund Balance - July 1, 2006	 398,187	398,187	398,187	 
Fund Balance - June 30, 2007	\$ 189,967	\$ 167,247	\$ 919,434	\$ 752,187

# **Other Supplemental Information**

	Nonmajor Special Revenue Funds							
	Local Streets			Housing and Fire Urban  Department Development			Mausoleum	
Assets		Lai Sti eets	De	partment	Deve	ортнени	1.10	usoleum
Assets								
Cash and cash equivalents	\$	131,230	\$	57,495	\$	-	\$	56,659
Accounts receivable - Special assessments		-		-		-		-
Due from other funds		- ( 210		-		-		=
Due from other governmental units	-	6,210			-			
Total assets	<u>\$</u>	137,440	\$	57,495	<u>\$</u>		\$	56,659
Liabilities and Fund Balances								
Liabilities								
Accounts payable	\$	9	\$	409	\$	-	\$	-
Deferred revenue								
Total liabilities		9		409		-		-
Fund Balances								
Reserved		-		-		-		-
Unreserved		137,431		57,086				56,659
Total fund balances	_	137,431		57,086				56,659
Total liabilities and fund balances	\$	137,440	\$	57,495	\$	-	\$	56,659

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2007

	Nonmajo	Nonmajor Debt Service Funds					
		9	Street				
	Cemetery	Re	ecreation	Pa	ırking	Impr	ovements
\$	168,329	\$	19,221	\$	556	\$	7,573
	-		2,270		-		-
_							
\$	168,329	\$	21,491	<u>\$</u>	556	\$	7,573
\$	2,821	\$	21,491	\$	-	\$	-
	2,821		21,491				
	2,021		21,771		-		-
	-		-		-		-
	165,508				556	-	7,573
	165,508				556		7,573
\$	168,329	\$	21,491	\$	556	\$	7,573

(Continued on next page)

	Nonmajor Capital Projects Funds							
	WWTP							
	Ve	ehicle and	Eq	uipment		Street	S	idewalk
		Repairs	Rep	lacement	lm	provement	Α	ssistance
Assets						_		
Cash and cash equivalents Accounts receivable - Special assessments Due from other funds	\$	112,102 - -	\$	461,314 - -	\$	202,538 - -	\$	44,254 2,383 -
Due from other governmental units					_			
Total assets	<u>\$</u>	112,102	\$	461,314	\$	202,538	\$	46,637
Liabilities and Fund Balances								
Liabilities								
Accounts payable	\$	-	\$	-	\$	-	\$	-
Deferred revenue		-					_	2,383
Total liabilities		-		-		-		2,383
Fund Balances								
Reserved		=		=		=		-
Unreserved	_	112,102		461,314		202,538		44,254
Total fund balances		112,102		461,314		202,538		44,254
Total liabilities and fund balances	\$	112,102	\$	461,314	\$	202,538	\$	46,637

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds (Continued) June 30, 2007

 Indowment		Funds
\$ 48,45 l - - -	\$	1,309,722 2,383 2,270 6,210
\$ 48,451	\$	1,320,585
\$  <u>-</u>	\$ 	24,730 2,383
\$ - -	<b>\$</b>	
\$  48,451	\$ 	2,383 27,113 48,451 1,245,021
\$  48,451 48,451	\$ 	2,383 27,113 48,451

	Nonmajor Special Revenue Funds							
				ire	L	sing and Jrban		
	Loc	al Streets	Depa	rtment	Deve	elopment	Ma	usoleum
Revenue								
Property taxes	\$	-	\$	-	\$	-	\$	-
Special assessments		-		-		-		-
Federal sources		-		-		28,100		-
State sources		85,400		-		-		-
Charges for services		940		89,998		-		100
Interest		4,927		2,537		-		2,707
Donations		-		900		-		-
Other		312		884				-
Total revenue		91,579		94,319		28,100		2,807
Expenditures								
Current:								
Highways and streets		90,773		-		-		-
Public service		-		-		-		1,235
Public safety		-	2	04,209		-		-
Recreation and culture		-		-		-		-
Capital outlay		-		-		-		-
Debt service:								
Principal retirement		-		21,647		28,100		-
Interest and fiscal charges				365				
Total expenditures		90,773	2	26,221		28,100		1,235
Excess of Revenue Over (Under)								
Expenditures		806	(1	31,902)		-		1,572
Other Financing Sources (Uses)								
Transfers in		40,000	ı	73,133		_		-
Transfers out			(	(25,083)		-		
Total other financing sources (uses)		40,000		48,050				
Net Change in Fund Balances		40,806		16,148		-		1,572
Fund Balances - Beginning of year		96,625		40,938				55,087
Fund Balances - End of year	\$	137,431	\$	57,086	\$		\$	56,659

### Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2007

Nonmajor Debt
Nonmajor Special Revenue Funds
Service Funds

	Parks and		Street				
<b>6</b>		D 1:					
Cemetery	Recreation	Parking	Improvements				
\$ -	\$ -	\$ -	\$ 395,618				
-	-	-	-				
-	-	-	-				
-	-	-	-				
27,655	119,353	25	-				
9,392	746	-	787				
-	4,451	-	-				
	4,257		<del>-</del>				
37,047	128,807	25	396,405				
-	-	-	-				
88,931	-	-	-				
-	-	-	-				
-	389,237	-	-				
-	-	-	-				
			350,000				
-	-	-	350,000				
			42,200				
88,931	389,237		392,200				
(51,884)	(260,430)	25	4,205				
,	, ,						
40.000	257.045						
49,000	257,865	-	-				
49,000	257,865						
(2,884)	(2,565)	25	4,205				
168,392	2,565	531	3,368				
\$ 165,508	<u> </u>	<u>\$ 556</u>	\$ 7,573				

(Continued on next page)

	Nonmajor Capital Projects Funds						
	Ve	WWTP Vehicle and Equipment			Sidewalk		
		Repairs		Street Improvement	Assistance		
Revenue		. торши с					
Property taxes	\$	_	\$ -	\$ -	\$ -		
Special assessments	Ψ	_	Ψ -	<u>-</u>	6,728		
Federal sources		_	_	_	-		
State sources		_	_	_	_		
Charges for services		-	_	_	_		
Interest		5,047	22,747	14,850	2,042		
Donations		-	-	-	- -		
Other				35,000			
Total revenue		5,047	22,747	49,850	8,770		
Expenditures							
Current:							
Highways and streets		-	-	-	-		
Public service		-	-	-	-		
Public safety		-	-	-	-		
Recreation and culture		-	-	-	-		
Capital outlay		44,455	19,207	-	-		
Debt service:							
Principal retirement		=	-	-	-		
Interest and fiscal charges							
Total expenditures		44,455	19,207				
Excess of Revenue Over (Under)							
Expenditures		(39,408)	3,540	49,850	8,770		
Other Financing Sources (Uses)							
Transfers in		37,192	20,300	320,952	-		
Transfers out				(520,000)			
Total other financing sources (uses)		37,192	20,300	(199,048)	-		
Net Change in Fund Balances		(2,216)	23,840	(149,198)	8,770		
Fund Balances - Beginning of year		114,318	437,474	351,736	35,484		
Fund Balances - End of year	<u>\$</u>	112,102	\$ 461,314	\$ 202,538	<b>\$ 44,254</b>		

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2007

	onmajor rmanent		
	imanent		Total
		N	lonmajor
L	ibrary		vernmental
	lowment	•	Funds
	OWITICITE		i dilas
\$		\$	395,618
Ψ	_	φ	6,728
	<u>-</u>		28,100
	-		85,400
	_		238,071
	1,129		66,911
	-		5,351
	-		40,453
	1,129		866,632
	_		90,773
	_		90,166
	-		204,209
	-		389,237
	-		63,662
	_		399,747
	-		42,565
		-	1,280,359
	1,129		(413,727)
	-		898,442
			(545,083)
	<u>-</u>		353,359
·	1,129		(60,368)
	47,322		1,353,840
\$	48,451	\$	1,293,472



Plante & Moran, PLLC

Suite 300 19176 Hall Road Clinton Township, MI 48038 Tel: 586.416.4900 Fax: 586.416.4901 plantemoran.com

August 15, 2007

To the Honorable Mayor and Members of the City Council City of Richmond 68225 Main Street Richmond, MI 48062

Dear Mayor and Council Members:

In planning and performing our audit of the financial statements of the City of Richmond as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.



We consider the following significant deficiencies, in the aggregate, to be material weaknesses:

- Lack of Segregation of Duties Segregation of duties is an essential component of a sound system of internal controls. When job responsibilities are properly segregated, a system of "checks and balances" is created, thereby reducing the risk of intentional or unintentional errors and/or omissions in the accounting records. We noted the following areas that lack segregation of duties:
  - Payroll The treasurer has the ability to sign payroll checks, add new employees to the payroll system, update pay rates, print payroll checks, and post journal entries to the general ledger (which are not required to be reviewed by a supervisor). Additionally, while the treasurer is the only person with access to the payroll software module, other employees at the City have access to the treasurer's password, which could lead to unauthorized access to the payroll system.

In order to strengthen controls in this area, the treasurer could be removed as an authorized check signer on this account or the payroll function could be performed by another person. In addition, segregating the payroll preparation function from the function of updating employee pay rates and creating new employees in the system would improve controls. We also recommend that employees with access to the payroll module should have passwords that are not known to other employees.

- o **Journal Entries** The treasurer is responsible for preparing and posting journal entries into the general ledger software system. This accounting data is being processed with no apparent supervisory review. A supervisory review of the treasurer's work would strengthen controls and may detect errors in the preparation process that may otherwise go undetected.
- Wire Transfers The City makes use of electronic wire transfers to effect various transactions, including payroll and debt payments. Currently, these transfers can be initiated and authorized by the treasurer without prior review or approval by a second individual. Though wire transfers are not used routinely, we encourage management to consider whether the supervisory review of monthly bank reconciliations provides sufficient control over electronic disbursements given the immediate nature of these transactions. We recommend implementing controls over wire transfers that would mirror or exceed those controls in place for traditional disbursements (approvals by various individuals, council review, etc.).

- O Bank Reconciliations We noted that the treasurer receives the statements for all of the City's bank and investment accounts, reconciles the accounts to the City's records, and makes any required adjustments to the general ledger. The reconciliations are reviewed by the City manager, which provides an essential layer of control in the reconciliation process; however, these controls could be strengthened by having someone other than the treasurer receive, open, and review the bank and investment statements before they are reconciled.
- Audit Journal Entries As a result of the auditing procedures performed, we detected and proposed the following significant audit adjustments. In all instances, the City posted the proposed journal entries to more accurately reflect the financial condition of the City at June 30, 2007.
  - Accounts Payable As a result of a review of checks written after June 30, 2007, we noted goods/services that were incurred prior to year end but were improperly excluded from expenditures and accounts payable at June 30, 2007. This was corrected through an audit adjustment.
  - Special Assessment Receivables and Deferred Revenue As payments on special assessments are received throughout the year, the City records revenue for the amount collected but does not adjust the related accounts receivable and deferred revenue balances throughout the year. An audit adjustment was made to adjust the special assessment receivable and deferred revenue accounts to reflect payments received during the year.
  - Other Accounts Receivable and Revenue Audit adjustments were made to record accounts receivable and the related revenue for Act 51 gas and weight tax, state-shared revenue, and rental income that was received after year end but was earned prior to year end.
  - Debt Principal Payments In the TIFA and Water Funds, the City incorrectly recorded principal payments on capital leases and bonds as an expenditure instead of a reduction to long-term debt. This was corrected through an audit adjustment.
  - State Revolving Fund Loan In the current year, the City received funding for a construction project from the State of Michigan in the form of a State Revolving Fund Ioan. The activity related to this project was improperly recorded as an expenditure in the Sewer Fund instead of a constructed asset. In addition, the reimbursements received from the State were improperly recorded as revenue instead of long-term debt. These items were corrected through audit adjustments. An audit adjustment was also made to record a receivable and the related debt for disbursements received from the State after year end that were earned prior to year end.

- Unbilled Receivables The City did not record accounts receivable and related revenue for water and sewer services used prior to June 30, 2007 but billed after year end. This was corrected through an audit adjustment.
- Capital Assets The City utilizes a capital asset module in order to maintain and depreciate the City's capital assets. During our testing of capital assets, we noted capital outlay expenditure accounts per the general ledger did not reconcile to the current year asset additions per the capital asset module. The City should consider performing a monthly review of assets recorded in the general ledger capital outlay accounts and compare this information to the assets included in the module. Performing this reconciliation on a monthly basis will ensure all assets are properly recorded in the module and depreciated accordingly.
- Fund Balance Beginning of year fund balance was adjusted for prior year audit entries that were not posted by the City.
- GASB No. 34 No journal entries were posted by the City to prepare the government-wide (GASB 34) financial statements. The City requested assistance with proposing these entries. All GASB 34 transactions were corrected through audit adjustments.

We also noted other accounting and legislative matters that we would like to communicate to you. In an effort to assist with the City's efforts toward improved operational and financial health, we offer the following observations:

- **Internal Control Matters** We noted the following internal control matters that are not considered to be significant deficiencies:
  - Access to Check Stock The prenumbered check stock is stored in an unlocked cabinet in the treasurer's office, which means all employees in the business office have access to the check stock. In order to improve internal controls over the cash disbursement function, the check stock should be kept in a locked location with only authorized individuals having access to the check stock. In addition, a system should be established to sign out a numerical range of check stock when needed. This will hold authorized signers accountable for the check stock they have received.
  - Capital Asset Disposals The City does not have a formal system in place to notify the finance department when a capital asset has been disposed of or has become impaired. We encourage the City to implement a formal system whereby the various departments submit a form or other communication indicating when a capital asset is disposed of or is impaired. This will help the treasurer maintain the accuracy of the capital asset module.

**New Audit Standards** - The following new audit standards, issued by the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board, have been implemented for the City's June 30, 2007 year end:

• Statement on Auditing Standards No. 103 (Audit Documentation) - This standard clarifies and increases the requirements that auditors must follow in obtaining, managing, and retaining documentation that supports the audit opinion. It prescribes the form, content, and extent of audit documentation necessary to support the audit work. It also redefines the method used to determine the dating of the auditor's report and creates a "lock down" date for the audit file.

The impact of this new standard resulted in increased requests for audit documentation and dating the opinion letter later than in previous years.

• Statement on Auditing Standards No. I 12 (Communicating Internal Control Related Matters Identified in an Audit) - This standard establishes standards and provides guidance regarding the auditor's communication responsibility to those charged with governance (i.e., council or finance/audit committee) concerning significant deficiencies and material weaknesses in internal control noted in a financial statement audit. The standard defines internal control deficiency, significant deficiency (this term replaces the term "reportable condition"), and material weakness. Internal control deficiencies that constitute significant deficiencies and material weaknesses will be reported, in writing, to those charged with governance and will be made no later than 60 days following the release date of the auditor's report on the financial statements.

The impact of this new standard resulted in more significant deficiencies being reported due to the lower threshold for reporting internal control deficiencies. For example, items such as audit adjustments and passed adjustments are now considered strong indicators of internal control deficiencies.

In addition to the two new Auditing Standards listed above, eight Auditing Standards will be effective for the City's June 30, 2008 year end. Statement on Auditing Standards No. 104 to 111 (The Risk Assessment Standards) will substantially impact and change the future audit process. We are currently evaluating the specific impact and changes of these standards on our audit process. We will keep you apprised of our progress.

This communication is intended solely for the information and use of management, the City Council, and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

Daird W. Xbungton

Jerry A. Cederstrom

David W. Herrington

Jenny L. Cederstrom